

Approved For Release 25X1
2008/02/15 :
CIA-RDP85T00875R001100010

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CIA-RDP85T00875R001100010

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Developments in Indochina

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No. 2003/73

State Dept. review completed

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President Thieu is planning cabinet changes that would relieve Prime Minister Khiem of the Interior Ministry, create a new post to coordinate foreign aid, and in general decentralize some administrative functions. The government has put together a new economic and fiscal program designed to show some progress in recovery and development by the end of the year. Three months after the cease-fire, a COSVN spokesman reaffirms Communist intentions to emphasize the political side of the struggle.

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LAOS

Pathet Lao and government representatives have made no headway in their initial negotiating sessions regarding the implementation of the Lao peace agreement. Senior Lao Communist envoy Phoumi Vongvichit, who last week returned from lengthy consultations in Sam Neua, reportedly again presented several demands that had stalled earlier talks. Further delay in reaching agreement could hinge as much on North Vietnamese timing as on differences between the Lao parties. Based on his discussions with Phoumi, Pheng Phongsavan has the impression that Hanoi may be still linking movement in the negotiations to progress on the resolution of cease-fire problems in Vietnam and on movement toward a solution in Cambodia.

Despite these signs of continued impasse, an agreement could come on relatively short notice. Talks leading to the Laos agreement in February also appeared stalled until Souvanna, in [redacted] talks with the Communists, worked out an agreement that he presented as a fait accompli to his cabinet. Once again, Souvanna and his trusted subordinate Pheng Phongsavan are now taking personal charge of the negotiations. In typical fashion, the Prime Minister seems prepared to proceed with little regard to the views of the right wing. [redacted]

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INTERNATIONAL DEVELOPMENTS

Since the signing of the Vietnam peace agreements early this year, the Soviets have consistently stressed that the war is over and that future Soviet aid to North Vietnam will be for the purposes of "consolidating peace and building socialism at home." This is in marked contrast to Soviet formulations prior to the cease-fire, when the USSR habitually promised "all-round support." It suggests that Moscow is alert to US concern about the possibility of another North Vietnamese offensive. The Soviets seem anxious to convey the message that future Soviet aid to North Vietnam will be primarily economic.

The USSR has good reasons for exercising restraint in arms deliveries to the Vietnamese. Soviet officials probably believe that the money could be spent elsewhere more profitably. Moreover, China has convincingly demonstrated that it, too, attaches more importance to relations with Washington than it does to North Vietnamese victories in Indochina. The USSR, therefore, probably hopes it can exercise restraint without damaging its position in Hanoi. More importantly, however, the USSR probably hopes it can appear responsive to US overtures and perhaps extract something from the US of immediate and direct benefit to the USSR.

The North Vietnamese probably already have enough arms on hand to pursue a range of military options--up to and including a major offensive. At least in theory, therefore, the Soviets cannot prevent an offensive should the Vietnamese decide it is in their interest. In practice, however, the USSR has some leverage because Hanoi

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would be reluctant to launch major military action without the support of its great power allies and without guarantees that the materiel expended would be replaced.

It will be difficult to judge whether the Soviets actually exercise restraint. Most Soviet military aid deliveries are made by rail across China, and the information on this traffic is so fragmentary that it is (and will continue to be) impossible to ascertain the quantities and in most cases the types of arms delivered. Soviet seaborne deliveries to North Vietnam have declined since the cease-fire and remain well below deliveries prior to the US mining of North Vietnamese ports last May. Soviet seaborne deliveries of POL to North Vietnam have declined sharply, but it is difficult to ascertain whether this is a deliberate act of restraint on the part of the Soviets or--as is more likely--a reflection of Hanoi's diminished storage capacity in the wake of the bombing last year.

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SOUTH VIETNAM

Government Reorganization

President Thieu is getting ready to institute some significant cabinet changes as well as a broader administrative reorganization. The changes are designed to improve the government's effectiveness; there is no indication that Thieu is thinking of broadening his regime by bringing in any independent or opposition politicians. Thieu wants to reorient his government for the post - cease-fire period, particularly by improving his standing with the people in the countryside, where Viet Cong activities pose the greatest danger.

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Thieu told Ambassador Bunker last week that Prime Minister Khiem will stay on as both prime minister and defense minister but will give up his concurrent role as interior minister.

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Thieu plans to create a new cabinet-level economic position to coordinate the administration of foreign aid, since he considers it necessary to simplify procedures and eliminate competition among ministries for aid resources. He also intends to appoint a new social welfare minister, and to combine the functions of some other ministries.

Thieu told Ambassador Bunker that he plans to decentralize the administration, shifting most administrative functions to the province and district levels. Current procedures, he feels, are too slow and cumbersome, and often create disaffection among the people. the upcoming shift will make government services more available to the people and will involve the transfer, at least temporarily, of some Saigon-based military personnel to the countryside.

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It is not clear how soon Thieu will act, but [] the [] changes may come within the next week or two. In the past, Thieu has sometimes delayed implementing cabinet reorganizations and has changed his mind about some of the changes that even his closest advisers had expected. []

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Proposed Economic Reforms

The government is considering a new economic and financial program designed to get the economy moving toward recovery and development by the end of this year. The program probably is in response to suggestions made to Thieu and his aides during their recent trip to the US. The package is extremely diverse, with many details still to be worked out, and announcements of specific reforms are likely to be spread over several months. It may also undergo revisions, additions, and deletions before actually being implemented.

The measures concentrate on improving conditions in two pressing economic areas: 1) rural reconstruction and development including refugee resettlement; and 2) stimulation of private investment. To support the first goal, the plan recommends a sharp increase in government expenditures in 1973 from 435 to 490 billion piasters (or to slightly over \$US 1 billion at the official exchange rate of 485:1). The increase will be allocated about equally between refugee and reconstruction projects, and will cover such areas as disaster relief, public works, and rural credit and development loans.

Private investment is to be stimulated primarily through expanding the role of the National Economic Development Fund. The fund, established a year ago and capitalized initially with \$21 million from US aid counterpart funds, provides medium- and long-term credits for private investment projects. Commercial banks will also be encouraged

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to make more investment loans, primarily in rural areas. In addition, the program calls for government joint ventures with the private sector, and will help Vietnamese contractors meet local US procurement needs. It also suggests foreign exchange reforms, including the establishment of a separate exchange fund for imports of capital goods and the abolition of all advance deposits on imports.

Although the goals of the proposed program appear constructive, its current outlines are too general to permit a useful analysis of its probable impact on the economy. In particular, there is as yet no timetable for implementation and no indication of the sources of the needed funds. The program may be interrelated with President Thieu's planned administrative reorganization. The transfer of a large segment of Saigon's civil service to the countryside, for example, would be a logical step in implementing the proposed refugee and rural development measures. [REDACTED]

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COSVN Allegedly Reoffering Strategy of Political Struggle

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[REDACTED] At a recent conference in Tay Ninh Province, a COSVN spokesman characterized Saigon's current position toward the Communists as "conciliatory." Although he claimed the GVN is out to undermine some provisions of the Paris agreement, he also allowed that it is still staying within the basic framework of the accord.

This portrayal may have been put forth in part to quiet the grumblings of old-line Viet Cong officials, some of whom have been contending that military action would bring a Communist victory a lot faster than sticking to political action under the cease-fire agreement. The COSVN spokesman reportedly admonished the conference to keep in mind that the agreement gains time for the Communists to "rally and build

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their forces" in order to defeat the government politically, or, if eventually necessary, militarily. The spokesman said the political struggle would have priority for an "indefinite period in the future" and that military operations must be in support of political action.

In rebuttal to complaints from the conferees about the "slow process" of the political route, the COSVN spokesman alleged that, even before the spring offensive last year, COSVN had recognized that the Viet Cong would face "insurmountable difficulties" in keeping the war going and in finding the necessary manpower and resources. Implying pressure on Hanoi from its Communist allies, he claimed that the party had "managed to obtain renewed support" from friendly countries by giving assurances that the cease-fire agreement would be observed.

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CAMBODIA

A Nonpaying War

The Cambodian Army has more than its share of misfortune these days. One of the most fundamental problems facing the army--and the government--is the tardy payment of troops. This is not a new situation, and in fact, existed even before the war. Recently it has been cited with increasing frequency as the main reason why more and more army units are unwilling to fight. Late last month, although they were not in combat, Cambodian soldiers abandoned the village of Siem Reap just ten miles south of Phnom Penh because they had not been paid for two months. Similar complaints have been made by other disgruntled soldiers, including those in the army's best units--the 2nd and 7th divisions.

The delay in pay stems primarily from the government's effort to eliminate "phantom troops" from military payrolls and to identify corrupt commanders who are pocketing the salaries of these non-existent soldiers. This important project requires a time-consuming verification of the army's real strength on a unit-by-unit basis. Some unit commanders continually request, and usually obtain, delays in submitting to inspections until they can round up enough extra troops--or civilians temporarily posing as troops--to pass muster. While all this is going on, the regular soldiers are not being paid.

There are other conditions that obstruct the verification process. Since the beginning of the year, the fighting in Cambodia has been relatively heavy and prolonged, resulting in the dispersal of many units and restricting access to others. It is difficult for government investigators to check these rosters. Other inhibiting factors are the lack of coordination and the ill-defined lines of authority among the various government agencies involved in ferreting out the "phantoms."

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Politics also gets in the way. Cambodian Army Chief of Staff Fernandez has often complained about President Lon Nol's failure to support attempts to crack down on corrupt officers. On more than one occasion, Lon Nol has refused to allow Fernandez to verify the strength of units commanded by senior officers who are personal favorites of the President. These officers include Brigadier General Lon Non, who until recently led the 3rd Division, and Brigadier General Ith Suong, who still heads the 1st Division. Lon Nol's protection of these men has caused some of their colleagues to comment cynically that Fernandez can only punish officers from lieutenant colonel down. The new ruling High Political Council may give Fernandez a helping hand, since its members have indicated that they are determined to curtail Lon Nol's interference in military affairs.

The pruning may drag on indefinitely, however. During the first three months of this year, the payroll was trimmed from about 290,000 to 278,000 troops. The army's actual strength is estimated to be about 225,000 men. As of late January, the army general staff could only verify the existence of 180,000 troops on its payrolls.

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